CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION

FINANCIAL REPORT
(Audited)

JUNE 30, 2008 AND 2007

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
JUNE 30, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California State University, Bakersfield, Foundation
Bakersfield, California

We have audited the accompanying statements of financial position of the California State University, Bakersfield, Foundation as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of California State University, Bakersfield, Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State University, Bakersfield, Foundation as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2008 on our consideration of the California State University, Bakersfield, Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. The supplementary schedules on pages 17 through 26 are presented as required by the California State University, for their use in including the California State University, Bakersfield, Foundation as an auxiliary organization component unit in their combined financial statements. This information is not a required part of the basic financial statements. All of the supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 17, 2008

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$ 4,229,275	$ 5,405,964
Pledges Receivable, Less Allowance for Doubtful Pledges 2008 - $240,055; 2007 - $275,400 (Note 3)	128,185	128,764
Other Receivables, Less Allowance for Doubtful Accounts 2008 - $25,601; 2007 - $16,366	551,338	457,788
Due from CSUB	387,510	574,025
Prepaid Expenses and Deferred Charges	525	-
Total Current Assets	5,296,833	6,566,541
Investment and Other Assets		
Investments (Note 4)	21,120,337	21,202,526
Pledges Receivable (Note 3)	3,061,124	3,530,125
	24,181,461	24,732,651
Property and Equipment		
Nondepreciable Assets	80,309	80,309
Buildings, Equipment, Furniture and Fixtures	10,526,261	11,764,157
Less Accumulated Depreciation	(3,599,230)	(4,555,495)
	7,007,340	7,288,971
	$ 36,485,634	$ 38,588,163
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 182,718	$ 345,989
Accrued Liabilities	84,207	31,952
Due to CSUB	374,369	235,123
Receipts in Excess of Expenditures Campus Programs	127,980	139,170
Deposits in Excess of Withdrawals for Agency Accounts	261,356	236,711
Total Current Liabilities	1,030,630	988,945
Accrued Postretirement Cost (Note 7)	2,144,552	2,387,246
Net Assets		
Unrestricted	15,812,582	14,882,501
Temporarily Restricted	4,841,195	8,461,635
Permanently Restricted	12,656,675	11,867,836
	33,310,452	35,211,972
	$ 36,485,634	$ 38,588,163

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Gifts	$ 426,664	$ 938,207	$ 788,839	$ 2,153,710
Revenues from Grants	595,854	-	-	595,854
Scholarships & Other Support	155,604	633,844	-	789,448
Food Service Sales and Commissions	28,253	-	-	28,253
Interest Income	288,132	409,832	-	697,964
Net Realized and Unrealized Gain on Investments	(265,087)	(876,196)	-	(1,141,283)
Athletics	757,163	144,166	-	901,329
Children's Center	562,015	-	-	562,015
Other Centers and Institutes	33,810	-	-	33,810
Other	80,569	-	-	80,569
Net Assets Released from Restrictions	4,870,293	(4,870,293)	-	-
Total Revenues and Other Support	7,533,270	(3,620,440)	788,839	4,701,669
Expenses and Deductions:				
Grants and Contracts	1,141,643	-	-	1,141,643
Athletics	542,223	-	-	542,223
Endowment	283,891	-	-	283,891
Administration and Benefits	815,834	-	-	815,834
Food Service and Other Auxiliary Expenses	26,258	-	-	26,258
Scholarships	727,435	-	-	727,435
Capital Projects	1,266,366	-	-	1,266,366
Depreciation	186,262	-	-	186,262
Children's Center	597,269	-	-	597,269
Other Centers and Institutes	41,239	-	-	41,239
Bad Debts	221,524	-	-	221,524
Other	911,859	-	-	911,859
Total Expenses and Deductions	6,761,803	-	-	6,761,803
Other Financing Sources (Uses)	(225,540)	-	-	(225,540)
Increase (Decrease) in Net Assets	545,927	(3,620,440)	788,839	(2,285,674)
Other Comprensive Income	384,154	-	-	384,154
Net Assets, Beginning	14,882,501	8,461,635	11,867,836	35,211,972
Net Assets, Ending	$ 15,812,582	$ 4,841,195	$ 12,656,675	$ 33,310,452

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
STATEMENTS OF ACTIVITIES (Continued)
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Gifts	$ 32,968	$ 1,724,441	$ 4,588,106	$ 6,345,515
Revenues from Grants	1,388,164	-	-	1,388,164
Scholarships & Other Support	986,061	-	-	986,061
Food Service Sales and Commissions	857,813	-	-	857,813
Interest Income	299,361	340,321	-	639,682
Net Realized and Unrealized Gain on Investments	576,845	1,766,536	-	2,343,381
Athletics	721,969	3,000,585	-	3,722,554
Property Additions	14,355	-	-	14,355
Children's Center	523,125	-	-	523,125
Other Centers and Institutes	199,165	-	-	199,165
Other	20,582	-	-	20,582
Net Assets Released from Restrictions	5,193,949	(5,193,949)	-	-
Total Revenues and Other Support	10,814,357	1,637,934	4,588,106	17,040,397
Expenses and Deductions:				
Grants and Contracts	769,657	-	-	769,657
Athletics	484,390	-	-	484,390
Endowment	195,834	-	-	195,834
Administration and Benefits	752,311	-	-	752,311
Food Service and Other Auxiliary Expenses	779,027	-	-	779,027
Scholarships	638,092	-	-	638,092
Capital Projects	256,289	-	-	256,289
Depreciation	321,395	-	-	321,395
Children's Center	530,492	-	-	530,492
Other Centers and Institutes	297,695	-	-	297,695
Bad Debts	251,444	-	-	251,444
Other	964,761	-	-	964,761
Total Expenses and Deductions	6,241,387	-	-	6,241,387
Other Financing Sources (Uses)	376,769	-	-	376,769
Increase (Decrease) in Net Assets before effect of adoption of FAS 158	4,949,739	1,637,934	4,588,106	11,175,779
Effect of adoption of recognition and measurement date provisions of FAS 158	(122,788)	-	-	(122,788)
Net Assets, Beginning	10,055,550	6,823,701	7,279,730	24,158,981
Net Assets, Ending	$ 14,882,501	$ 8,461,635	$ 11,867,836	$ 35,211,972

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash Flows from Operating Activities		
Change in Net Assets	$ (2,285,674)	$ 11,175,779
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net Unrealized and Realized Loss (Gain) on Investments	1,141,283	(2,343,381)
Change in Allowance for Doubtful Accounts	(26,110)	157,766
Loss on Disposition of Property and Equipment	97,980	-
Depreciation	186,262	321,395
(Increase) Decrease in Receivables	598,578	(663,463)
Decrease in Prepaid Expenses and Deferred Charges	(525)	4,879
Increase (Decrease) in Accounts Payable and Accrued Liabilities	41,685	(1,998,292)
Increase (Decrease) in Other Liabilities	(242,694)	226,491
Net Cash Provided by (Used in) Operating Activities	(489,215)	6,881,174
Cash Flows from Investing Activities		
(Purchase) Disposition of Fixed Assets	(2,610)	(77,627)
(Purchase) of Investments	(684,864)	(4,942,038)
Net Cash (Used in) Investing Activities	(687,474)	(5,019,665)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,176,689)	1,861,509
Cash and Cash Equivalents		
Beginning	5,405,964	3,544,455
Ending	$ 4,229,275	$ 5,405,964

The accompanying notes are an integral part of these financial statements.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

California State University, Bakersfield, Foundation (the Foundation) provides essential services to the students, faculty and staff of California State University, Bakersfield that cannot be provided through State procedure.

A summary of the Foundation's significant accounting policies follows:

Accounting Policies

The Foundation accounts for its financial transactions in accordance with the policies and procedures of the California State University Auxiliary Organization's Accounting and Reporting System. The accounting policies of the Foundation conform to accounting principles in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. An estimate considered to be significant to the financial statements is the allowance for uncollectible pledges.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Foundation's activities). Donated materials and services are recorded at fair market value whenever an objective basis is available to quantify the donation for financial presentation and depreciable purposes.

Revenue Recognition

Revenue from grants and contracts is recognized as funds are expended. All commercial revenue including book and supply sales, food sales, etc. is recorded when earned. Federal grant awards are classified as deferred revenue until expended for the purposes of the grants.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Foundation applies SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers cash on hand, cash on deposit, and all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Cash as of June 30, 2008 and 2007 included approximately $1,481,322 and $2,963,077, respectively, held by a financial institution, which exceeded the insurance limits of the Federal Deposit Insurance Corporation.

Property and Equipment

Property and equipment is stated at cost. When cost information is not available, appraised values are used. Depreciation of property and equipment is computed on the straight-line method over estimated useful lives of three to thirty years. All acquisitions of property and equipment in excess of $2,500 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Postretirement Benefits

The Foundation provides certain health care benefits for all retired employees that meet eligibility requirements. The Foundation's share of the estimated costs of benefits that will be paid after retirement is generally being accrued by charges to expense over the employees' service periods to the dates they are fully eligible for benefits, except that the Foundation's unfunded cost that existed at June 30, 1995 is being accrued primarily in a straight-line manner that will result in its full accrual by June 30, 2015.

Donated Materials

The Foundation receives donated materials from individuals and organizations to use in their supporting services. The value of these donated materials is reflected as contributions and expenses in the statements of activities at their estimated fair value.

Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and related state code sections, except for taxes on unrelated business income.

Description of Entity

The accounts of the Foundation are maintained in such a way to provide visibility and control.

These accounts are organized into Fund groups. These funds include a General Fund, Auxiliary Activities Funds, Sponsored Program Funds, Designated Funds, Plant Funds, Campus Programs Funds, Endowment Funds and Scholarship Funds. A description of the fund groups follows:

The General Fund is the general operating fund of the Foundation. It is used to account for activities that support the central Foundation office as well as costs associated with administration salary and benefits. It is used to account for all financial resources except those activities accounted for in another fund.

The Auxililary Activities fund accounts for the activities of campus-wide vending.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of Entity (Continued)

Sponsored Program Funds account for contracts and grants awarded by governmental, non profit and private institutions for research, training and educational purposes as approved by the University. Revenue is recognized as it is earned through expenditure in accordance with agreements.

The Designated Fund is used to account for activities that support academic programs that will be expended for specific purposes as designated by the Board of Directors.

Plant Funds are used to account for the acquisition and construction of major Foundation sponsored capital assets. As well, these funds relate to both reserve funds and capital funds held for specific long term programs or capital needs.

The Endowment Fund accounts for gifts that are donated to the Foundation for which the principal is to be invested in perpetuity and only the related income be expended for support of scholarship awards and University programs. Also this fund group includes endowment spending accounts which receive transfers from endowment investment pool accounts.

The Scholarship Fund receives donations relating to scholarships to be awarded to university students meeting certain criteria.

The Campus Program Fund accounts for activities designated for support of University programs. These activities are self supporting and include athletics, annual fund and various funds geared toward fundraising. This group of funds also includes agency funds which are used to account for faculty, staff and student activities for which the Foundation acts as an agent.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2007, the Foundation adopted FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. See Note 7 for disclosures required under FASB Statement No. 158.

Reclassification

Certain amounts for the year ended June 30, 2007 have been reclassified to conform with the presentation of the June 30, 2008 amounts. The reclassifications have no effect on the financial position, results of operations, and cash flows for the year ended June 30, 2007.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30, 2008 and 2007:

	2008	2007
Banks	$ 1,481,679	$ 2,970,914
Local agency investment fund	156,216	149,814
Brokers	2,587,680	2,281,486
On hand	3,700	3,750
Total cash and cash equivalents	$ 4,229,275	$ 5,405,964

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are expected to be collected as follows:

	2008	2007
Less than one year	$ 128,185	$ 128,764
One to five years	3,061,124	3,530,125
	$ 3,189,309	$ 3,658,889

During the course of fiscal year 2007-2008 certain multi-year pledge(s) deemed by management previously to be unconditional became conditional. Consequently, the value of these pledge(s) were removed from the financial statements and is not reflected in the pledge receivable balance outstanding at June 30 2008.

NOTE 4 – INVESTMENTS

Investments are stated at fair value at June 30, 2008 and 2007. Cost, fair values and unrealized appreciation at June 30, are as follows:

	2008		
	Cost	Fair Value	Unrealized Appreciation
Common fund (bond and equity funds)	$ 13,421,756	$ 20,157,706	$ 6,735,950
Common fund (real estate fund)	600,000	594,926	(5,074)
Equities	114,689	85,390	(29,299)
Mutual funds	248,462	282,315	33,853
Total investments	$ 14,384,907	$ 21,120,337	$ 6,735,430

	2007		
	Cost	Fair Value	Unrealized Appreciation
Common fund (bond and equity funds)	$ 13,421,756	$ 20,782,863	$ 7,361,107
Equities	114,689	118,118	3,429
Mutual funds	248,462	301,545	53,083
Total investments	$ 13,784,907	$ 21,202,526	$ 7,417,619

NOTE 4 – INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2008 and 2007:

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest income	$ 288,132	$ 409,832	$ -	$ 697,964
Net realized and unrealized gains (see Note 1)	(265,087)	(876,196)	-	(1,141,283)
Total Reported Investment Return	$ 23,045	$ (466,364)	$ -	$ (443,319)

2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest income	$ 299,361	$ 340,321	$ -	$ 639,682
Net realized and unrealized gains (see Note 1)	576,845	1,766,536	-	2,343,381
Total Reported Investment Return	$ 876,206	$2,106,857	$ -	$2,983,063

NOTE 5 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2008 and 2007:

	2008	2007
Investment earnings and contributions:		
Restricted for scholarships	$ 3,758,822	$ 4,461,050
Restricted for academic programs	938,207	1,000,000
Restricted for athletic programs	144,166	3,000,585
	$ 4,841,195	$ 8,461,635

Permanently restricted net assets are available for the following purposes at June 30, 2008 and 2007:

	2008	2007
Contributions restricted in perpetuity	$ 12,656,675	$ 11,867,836

NOTE 6 – DEFINED BENEFIT PENSION PLAN

Description

The Foundation applies GASB 27, "Accounting for Pensions by State and Local Employers." Statement 27 establishes a viewpoint that the processes of government and the needs of users of the financial statements of governmental employers are best served when (a) the measurement of the employer's pension expenditures/expense for an accounting period is similar to the employer's required contributions for that period, in accordance with an established and actuarially sound funding policy, and (b) related information reported by the employer, the pension plan, or both entities is measured consistently. That information includes the employer's required contributions and the funded status of the plan.

The Foundation contributes to the Public Employees' Retirement System of the State of California (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public agencies in California. The Foundation's payroll for employees covered by PERS for the years ended June 30, 2008 and 2007 was $615,434 and $827,155, respectively. The total payroll for all Foundation employees was $841,236 and $1,083,022 for the years ended June 30, 2008 and 2007, respectively. .

PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, California 95814.

All full-time employees are eligible to participate in PERS. Benefits vest after five years of service. As of June 30, 2008 and 2007, the Foundation employed 16 and 25 full-time employees, participating in PERS, respectively.

Funding Policy

Active plan members are required to contribute 5% of their salary to PERS and the Foundation is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the PERS Board of Administration. Significant actuarial assumptions used to compute the PERS pension benefit obligation includes an actuarial interest rate of 6 percent per annum and varying projected salary increases based on duration of service and including a 4.5 percent for inflation factor.

The required employer contribution rate for fiscal year 2007-08 was 8.102% of annual payroll. The Foundation's annual PERS pension costs for the fiscal years ending June 30, 2008 and 2007 were $49,862 and $67,423, respectively.

Actuarially Determined Contribution Requirements and Contribution Made

PERS uses the Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ended on June 30, 2000. The significant actuarial assumptions used to compute the actuarially determined contribution requirement were determined based on an actuarial valuation performed as of June 30, 2005.

NOTE 7 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 6, the Foundation provides postretirement health care benefits through PERS to full-time employees who retire from the Foundation on or after attaining age 50 with at least 5 years of service. Continued participation in the existing health and dental plans is offered. Once the individual is eligible for Medicare, coverage may be continued in the PERS health plan by enrolling in a supplement to Medicare or a Managed Medicare Plan. The following information is based on an actuarial study performed as of June 30, 2007 and rolled-forward to the June 30, 2008 measurement date.

Net periodic postretirement benefit cost included the following components for the years ended June 30, 2008 and 2007:

	2008	2007
Service Cost	$ 103,068	$ 97,234
Interest Cost	140,406	130,810
Amortization prior service cost	(37,643)	(37,643)
Net periodic postretirement benefit cost	$ 205,831	$ 190,401

The net periodic postretirement benefit cost was determined using the following weighted average assumptions:

	2008	2007
Discount rate	6.00%	6.25%
Expected long-term rate of return	N/A	N/A
Health care cost trend rate:		
Present rate before 65	8.50%	9.00%
Present rate 65 and older	10.00%	10.38%
Ultimate rate before age 65 (year reached)	5.00%	5.00% (2015)
Ultimate rate age 65 and older (year reached)	5.00%	5.00% (2015)

Accumulated postretirement and projected benefit obligation:		
Retirees	$ 1,477,766	$ 1,628,385
Other fully eligible plan participants	352,790	361,997
Other active participants	313,996	396,864
Total	$ 2,144,552	$ 2,387,246

Funded status:		
Accrued postretirement benefit cost at June 30, 2007	$ 2,387,246	$ 2,130,588
Change in accrued postretirement benefit cost at June 30, 2007 to initially apply FASB Statement No. 158	-	122,336
Actuarial gain (loss)	(383,282)	1,339
Retiree Contributions		
Net periodic postretirement benefit cost	205,831	190,401
Estimated benefit payments	(65,243)	(57,418)
Accrued postretirement benefit cost at June 30, 2008 and 2007	$ 2,144,552	$ 2,387,246

NOTE 7 – <u>POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS</u> (Continued)

The projected benefit obligation was determined using the following weighted average assumptions:

	2008	2007
Discount rate	6.25%	6.00%
Health care cost trend rate:		
Present rate before 65	9.00%	8.50%
Present rate 65 and older	9.00%	10.00%
Ultimate rate before age 65 (year reached)	5.00%	5.00% (2014
Ultimate rate age 65 and older (year reached)	5.00%	5.00% (2014)

The expected net periodic postretirement benefit cost fiscal year 2009:		
Service cost	$	71,084
Interest cost		131,174
Amortization prior service cost		(38,013)
Net periodic postretirement benefit cost	$	164,245

The expected contribution for the next 10 years:		
2009	$	91,531
2010		101,934
2011		103,437
2012		103,902
2013		114,394
2014-2018		666,082

An actuarial study is completed every two years. The schedule presented above is based on the study completed on August 22, 2008.

NOTE 8 – <u>SPONSORED PROGRAM LOAN</u>

In October 1995, the Children's Center plant fund (a student sponsored program through the California State University, Bakersfield, Foundation), borrowed $250,000 from the Foundation plant fund to finance expansion of the kitchen and bathroom facilities to meet state licensing requirements. The loan period is fifteen years and the loan carries interest at 6% per annum. The loan is included in the intrafund receivables and payables on the Foundation’s books. The balance was $36,228 and $58,636 at June 30, 2008 and 2007, respectively. These account balances are eliminated when reporting at the Foundation level, as the Children’s Center operations are included in the financial statements of the Foundation. As the assets acquired with this loan were recorded as part of the Foundation assets both the assets and loan balance are not shown on the separate Children Center financial statements.

Actual payment to the Foundation are made from ASI as a result of the Associated Students Fee Referendum approved on August 29, 1990, in which it stipulates that a portion of fees collected would be used for loan repayment.

NOTE 9 – CONTRACTED COMMERCIAL ACTIVITIES

As required by the California State University Auxiliary and Business Services, following are the terms of contracted commercial activities:

Vending drinks/snacks

Length of contract	2 years (commencing August 11 2008)
Commission structure	Coffee sales: 35% of gross sales
	Drink and snack sales: 35% of gross sales

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Vacation and sick leave – Accumulated unpaid vacation benefits are recognized as liabilities in the statement of financial position. Unpaid vacation benefits accrue at various rates according to employee status and length of employment. Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Sick leave with pay is provided when employees are absent for health reasons. However, the employees do not gain a vested right to accumulate sick leave. Therefore, employees are never paid for any sick leave balance at termination of employment. Accordingly, accumulated sick leave benefits are not recognized as liabilities of the Foundation, but are recorded as expenditures in the period that sick leaves are taken.

State and federal allowances, award, and grants – The Foundation has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Pending litigation – There is a pending litigation against the Foundation related to nonpayment and breach of contract on a construction project. The sum being claimed is approximately $128,000. Management intends to vigorously oppose the matter, and they together with legal counsel, are confident that there is a good likelihood of prevailing. Accordingly, there has been no liability recorded for the potential unfavorable outcome of this claim.

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

The Foundation functions to benefit the student body of the California State University, Bakersfield by operating various campus programs. The Foundation receives various services such as printing, utilities, telephone, mail service, etc. from the University which they are required to pay fees for. The Foundation also reimburses the University for the cost of faculty payroll for faculty work on grants.

Transactions for the years ended June 30, 2008 and 2007 with related parties are reflected in the accompanying financial statements as follows:

	2008	2007
Revenues:		
Program fees		
Student services	$ 93,891	$ 80,782
General and administrative	14,200	14,200
Expenses:		
Administrative services	500,486	633,179
Accounts receivable	387,510	574,025
Accounts payable	374,369	235,123

NOTE 12 – SUBSEQUENT EVENTS

The president of California State University Bakersfield (University) reorganized the roles and responsibilities of the University and the Foundation administrative personnel. The purpose of the reorganization was to allow the Foundation to focus on programs and activities that would be more closely correlated to supporting, promoting and advocating the University's vision and mission and move operations that are an integral part of the University activities to the management of University administration. Activities not requiring Foundation oversight that are to be included in the transition specifically relate to grants and contracts, bookstore operations and food service and campus dining. The activities of grants and contracts as well as bookstore operations and food service operations have effectively been transitioned to University management. This transition of activities does not include fixed assets that were purchased by the Foundation and are included in its financial statements.

In September 2007, the Foundation Board approved an expenditure up to $250,000 to purchase Raisers Edge Blackbaud software to aid in the fundraising and Development efforts of the Foundation and University Advancement. This approval also allowed the Foundation to borrow money from the University to fund this purchase and repay the loan over an eight year period. In July 2008, the Foundation received loan proceeds from the University and loan documents were being processed for $208,000. The term of the loan is 8 years at an interest rate of 4%.

SUPPLEMENTARY INFORMATION

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008
(for inclusion in the California State University)

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Identifying Number	Amount
U.S. Department of Agriculture Pass-through California Department of Education			
Child Nutrition and Food Distribution Division:			
Child and Adult Care Food Program - Center	10.558	15-1245-9A	$ 30,383

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
SCHEDULE OF NET ASSETS
JUNE 30, 2008
(for inclusion in the California State University)

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 4,229,275
Short-Term Investments	-
Accounts Receivable, Net	938,848
Leases Receivable, Current Portion	-
Pledges Receivable, Net	128,185
Prepaid Expenses and Other Assets	525
Total Current Assets	5,296,833
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	-
Accounts Receivable, Net	-
Leases Receivable, Net of Current Portion	-
Student Loans Receivable, Net	-
Pledges Receivable, Net	3,061,124
Endowment Investments	14,840,942
Other Long-Term Investments	6,279,395
Capital Assets, Net	7,007,340
Other Assets	-
Total Noncurrent Assets	31,188,801
Total Assets	36,485,634
Liabilities:	
Current Liabilities:	
Accounts Payable	182,718
Accrued Salaries and Benefits Payable	-
Accrued Compensated Absences - Current Portion	20,483
Deferred Revenue	127,980
Capitalized Lease Obligations - Current Portion	-
Long-Term Debt Obligations - Current Portion	-
Due to California State University Risk Management Authority	-
Other Liabilities	699,449
Total Current Liabilities	1,030,630
Noncurrent Liabilities:	
Accrued Compensated Absences, Net of Current Portion	-
Deferred Revenue	-
Grants Refundable	-
Capitalized Lease Obligations, Net of Current Portion	-
Long-Term Debt Obligations, Net of Current Portion	2,144,552
Depository Accounts	-
Other Liabilities	-
Total Noncurrent Liabilities	2,144,552
Total Liabilities	3,175,182

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
SCHEDULE OF NET ASSETS (Continued)
JUNE 30, 2008
(for inclusion in the California State University)

Net Assets:		
Invested in Capital Assets, Net of Related Debt		7,007,340
Restricted for:		
Nonexpendable - Endowments		12,656,675
Expendable:		
Scholarships and Fellowships		4,697,029
Research		-
Loans		-
Capital Projects		-
Debt Service		-
Other		144,166
Unrestricted		8,805,242
Total Net Assets	$	33,310,452

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees	$ -
Grants and contracts noncapital:	
Federal	-
State and local	904,479
Nongovernmental	42,310
Sales and services of educational activities	28,253
Sales and services of auxiliary enterprises	-
Other operating revenues	1,381,300
Total operating revenues	2,356,342
Expenses:	
Operating expenses:	
Instruction	371,560
Research	728,782
Public Service	659,617
Academic support	-
Student services	564,029
Institutional support	620,160
Operation and maintenance of plant	1,508,628
Student grants and scholarships	727,435
Auxiliary enterprise expenses	26,258
Depreciation and amortization	186,262
Total operating expenses	5,392,731
Operating income (loss)	(3,036,389)
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Gifts, noncapital	1,162,788
Investment income, net	(443,319)
Endowment income (loss)	(373,439)
Interest on capital-related debt	-
Other nonoperating revenues (expenses)	-
Net nonoperating revenues (expenses)	346,030
Income (loss) before other additions	(2,690,359)
State appropriations, capital	-
Grant and gifts, capital	-
Additions to permanent endowments	788,839
Increase (decrease) in net assets	(1,901,520)
Net assets:	
Net assets at beginning of year	35,211,972
Net assets at end of year	$ 33,310,452

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
OTHER INFORMATION
JUNE 30, 2008
(for inclusion in the California State University)

1. Restricted Cash and Cash Equivalents at June 30, 2008:

Portion of Restricted Cash and Cash Equivalents Related to Endowments	$ -
All Other Restricted Cash and Cash Equivalents	-
Total Restricted Cash and Cash Equivalents	$ -

2. Composition of Investments at June 30, 2008:

	Current	Noncurrent	Total
Debt and Equity Securities	$ -	$ 20,838,022	$ 20,838,022
Certificates of Deposit	-	-	-
Other Investments:			
Mutual Funds	-	282,315	282,315
Total Investments	$ -	$ 21,120,337	$ 21,120,337

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
OTHER INFORMATION (Continued)
JUNE 30, 2008
(for inclusion in the California State University)

3. Composition of Capital Assets at June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
Non-Depreciable Capital Assets				
Land and Land Improvements	$ 80,309	$ -	$ -	$ 80,309
Works of Art and Historical Treasures	-	-	-	-
Construction Work in Progress	-	-	-	-
Total Non-Depreciable Capital Assets	80,309	-	-	80,309
Depreciable Capital Assets				
Buildings and Building Improvements	4,123,579	-	-	4,123,579
Improvements, Other than Buildings	-	-	-	-
Infrastructure	-	-	-	-
Leasehold Improvements	-	-	-	-
Personal Property:				
Equipment	7,640,578	2,610	(1,240,507)	6,402,681
Library Books and Materials	-	-	-	-
Intangible Assets	-	-	-	-
Total Depreciable Capital Assets	11,764,157	2,610	(1,240,507)	10,526,260
Total Cost	11,844,466	2,610	(1,240,507)	10,606,569
Less Accumulated Depreciation				
Buildings and Building Improvements	843,609	97,253	-	940,862
Improvements, Other than Buildings	-	-	-	-
Infrastructure	-	-	-	-
Leasehold Improvements	-	-	-	-
Personal Property:				
Equipment	3,711,885	89,009	(1,142,527)	2,658,367
Library Books and Materials	-	-	-	-
Intangible Assets	-	-	-	-
Total Accumulated Depreciation	4,555,494	186,262	(1,142,527)	3,599,229
Net Capital Assets	$ 7,288,972	$ (183,652)	$ (97,980)	$ 7,007,340

Detail of depreciation expense for the year ended June 30, 2008:

Depreciation and Amortization Expense Related to Capital Assets	$ -
Amortization Expense Related to Other Assets	186,262
Total Depreciation and Amortization	$ 186,262

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
OTHER INFORMATION (Continued)
JUNE 30, 2008
(for inclusion in the California State University)

4. Long-Term Liabilities Activity Schedule:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Long-Term Portion	Current Portion
Accrued Compensated Absences	$ 28,629	$ 25,370	$ 33,515	$ 20,484	$ -	$ 20,484
Self-Insurance Claims Liability	-	-	-	-	-	-
Capitalized Lease Obligations	-	-	-	-	-	-
Long-Term Debt Obligations:						
Revenue Bonds	-	-	-	-	-	-
Other Bonds (Non-Revenue Bonds)	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-
Other:						
Accrued Postretirement Cost	2,387,246	205,831	448,525	2,144,552	2,144,552	-
Total Long-Term Debt Obligation	2,387,246	205,831	448,525	2,144,552	2,144,552	-
Total Long-Term Liabilities	$ 2,415,875	$ 231,201	$ 482,040	$ 2,165,036	$2,144,552	$ 20,484

5. Interest Rates:

	Low	High
Range of Interest Rates on Outstanding Debt	N/A	

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
OTHER INFORMATION (Continued)
JUNE 30, 2008
(for inclusion in the California State University)

6. Future Minimum Lease Payments:

Year Ending June 30:	Capital Leases
2008	$ -
2009	-
2010	-
2011	-
2012	-
2013-2017	-
2018-2022	-
2023-2027	-
2028-2032	-
2033-2037	-
2038-2042	-
2043-2047	-
2048-2052	-
2053-2056	-
Total Minimum Lease Payments	-
Less Amounts Representing Interest	-
Present Value of Future Minimum Lease Payments	-
Less Current Portion	-
Capitalized Lease Obligations, Net of Current Portion	$ -

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
OTHER INFORMATION (Continued)
JUNE 30, 2008
(for inclusion in the California State University)

7. Long-Term Debt Obligation Schedule:

	Revenue Bonds		All Other Long-Term Debt Obligations		Total	
Year Ending June 30:	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ -	$ -	$ -	$ -	$ -	$ -
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013-2017	-	-	-	-	-	-
2018-2022	-	-	-	-	-	-
2023-2027	-	-	-	-	-	-
2028-2032	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-
2038-2042	-	-	-	-	-	-
2043-2047	-	-	-	-	-	-
2048-2052	-	-	-	-	-	-
2053-2056	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -

8. The Nature and Amount of the Prior Period Adjustment(s) Recorded to Beginning Net Assets – GASB Auxiliary Organizations:

N/A – No restatements

9. The Nature and Amount of the Prior Period Adjustment(s) Recorded to Beginning Net Assets – FASB Auxiliary Organizations:

N/A – No restatements

10. Calculation of Net Assets – Invested in Capital Assets, Net of Related Debt:

	Auxiliary Organizations	
	GASB	FASB
Capital Assets, Net of Accumulated Depreciation	N/A	$ 7,007,340
Capital Lease Obligations, Current Portion		-
Capital Lease Obligations, Net of Current Portion		-
Long-Term Debt Obligations, Current Portion		-
Long-Term Debt Obligations, Net of Current Portion		-
Unspent Bond Proceeds		-
Other		-
Net Assets - Invested in Capital Assets, Net of Related Debt		$ 7,007,340

OTHER REPORT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
California State University, Bakersfield, Foundation
Bakersfield, California

We have audited the financial statements of California State University, Bakersfield, Foundation as of and for the year ended June 30, 2008, and have issued our report thereon dated September 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements of California State University, Bakersfield, Foundation as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain matters in internal control that we consider to be control deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. We noted certain matters that we considered to be control deficiencies which are reported in the schedule of findings and recommendations on pages 29-30 of this report and in the schedule of findings and questioned costs section of the Foundation Children's Center's stand-alone Audited Financial Report. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the Foundation's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, except for State compliance findings disclosed in the Foundation Children's Center's stand-alone audited financial report, that are required to be reported under *Government Auditing Standards*.

This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 17, 2008

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SCHEDULE I – FINANCIAL STATEMENT FINDINGS
YEAR ENDED JUNE 30, 2008

Finding 1 – Pledges Receivables

<u>Condition</u>

During our testing or pledge receivable, we identified several control deficiencies as follows:

1. As part of our testing of pledge receivable, we reviewed the existing gift policy and noted that the existing policy and procedures manual does not address the following areas:

   - Receiving, recording, monitoring and record keeping of gifts to the foundation.
   - Method and process of the estimation of Allowance for Uncollectible Pledges.
   - Recording, monitoring and write-off of Conditional Pledge Receivables.
   - Recording, monitoring and write-off of Pledges under $500.
   - Reconciliation of Pledge Receivable balances between donors' database maintained by the Office of Advancement and general ledger.
   - Follow-up and write-off of multi-year Pledge Receivables.

2. During the testing, we noted that prior year's unconditional non-cash pledge receivable became current year's conditional pledge receivable, and was written off from the pledge receivable aging report.

   There were no written records or documentation to document the process and procedure of changing the nature of a pledge receivable.

3. As part of our analysis of pledge receivables, we selected a sample of pledges for confirmation. Among the returned confirmations, there are three donors who stated their intention of no longer honoring their pledge any more. Among the confirmations not returned by the donors, there are five pledges that had not received any payments during the prior year or the current year, nor are there any follow-up or other correspondence with the donor that can support their intention of honoring the original pledge.

   As a result, we proposed one AJE to write off the three returned pledge receivables, and proposed another AJE to increase the Bad Debt Expense and Allowance for Uncollectible Pledges to account for the five non-responding pledges.

<u>Recommendation</u>

Foundation should establish a comprehensive policy and procedures manual for the processing, monitoring and recording of gifts and pledge receivables.

Foundation staff and management should work closely with the Office of Advancement to perform follow-up with the donor on an annual basis for all existing pledges, especially multi-year pledges. Proper actions should be taken for pledges that are no longer current, including write-off and increasing allowance account balance.

<u>Management Response</u>

The newly appointed Executive Director of the Foundation is writing a new gift policy and procedures manual that will address the various aspects of this finding. The gift policy procedures will include procedures related to receiving, recording, monitoring and record keeping of gifts to the Foundation. These policies will also include how pledge receivables are to be reconciled with balances recorded in the general ledger as well as the treatment of conditional pledges and allowance for doubtful accounts.

SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Most grant activity was transferred to California State University, Bakersfield (the University) during fiscal year June 30, 2006. Total Foundation federal expenditures incurred during fiscal year ended June 30, 2008 were below the $500,000 threshold required for compliance testing; therefore compliance testing of federal awards was not conducted for the Foundation during the fiscal year June 30, 2008 audit. Refer to the University's June 30, 2008 audited financial statements for any current year federal award findings and status of prior year findings.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, FOUNDATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 1 – Property and Equipment

<u>Condition</u>

During our analysis of property and equipment we noted the following issues:

- We were unable to determine if fully depreciated assets were still in use due to lack of a physical inventory.

- Incorrect calculation of depreciation expense for one item selected for testing. Depreciation expense was charged for only five months.

<u>Recommendation</u>

The following recommendations should be implemented:

- Performance of a physical inventory should be performed on a periodic basis to ensure that only assets still in use are included in the Foundation general ledger and property and equipment records.

- Property and equipment schedules should be reviewed on a regular basis to ensure that all formulas are correct and that depreciation expense is using correct asset lives.

- Capitalization threshold should be increased to $2,500 to be consistent with newly approved campus policy.

<u>Management Response</u>

Management understands and appreciates the need for controls over fixed assets recorded in the Foundation's books and records. Management requested the University's facilities department to tag sensitive items costing $500 or more through the 06/07 fiscal year and to do the same for items costing $2,500 or more beginning July 1 2007. Furthermore management is working to transfer assets connected to the food service operation to the University. Many of these items have zero net book value. Finally, in conjunction with this transfer of assets management seeks to remove assets with an original cost of less than $2,500 from its fixed asset database so as to bring the database into alignment with the University's current policy for tracking fixed asset inventories.

<u>Current Year Status</u>

Management increased the capitalization threshold to $2,500. Fully depreciated assets and assets under $2,500 were written off from the book. A physical inventory was performed during current year. Management has reviewed the property and equipment schedules.

Finding 2 – Accounts Payable/Expenses

Condition

As part of our analysis of Accounts Payable we noted the following issues:

- Accruals in the amount of $39,010 for expenses incurred during the period of 10/01/98-12/31/04 for the final installment of the Valley Fever Project were unpaid as of June 30, 2008. Per review of invoice received from University of California, Davis that was dated June 22, 2005, numerous attempts were made to obtain payment as it was marked with "Final Notice", but payment was not received in a timely manner. Payment was confirmed by a representative at University California, Davis as being received on August 14, 2007.

- During our analysis of accounts payable we noted that a payable in the amount of $11,848 due to the Student Union for Sodexho Commissions for fiscal year ended June 30, 2006 had not been paid in a timely manner. Per review of subsequent cash receipts during our audit of Student Union, we noted that this amount was received from the Foundation in August 2007.

Recommendation

Monthly review of accounts payable listing should be performed to ensure that all liabilities are paid on a timely basis. In the event that the Foundation disputes the amount owed, documentation should be included in the accounts payable records disclosing the dispute and the steps being taken to resolve the dispute.

Management Response

Management made sure all current liabilities were recorded appropriately in the general ledger. Management understands the control issue the auditor has identified relates to the timeliness of payments, not the recognition of the liability. In the case of UC Davis, the final invoice is related to an accrual made in the prior year for researchers performing work related to the Valley Fever vaccine project. The payment was made when the invoice was identified and the principal investigator represented that there was no objection to it being paid. In the case of amount owed the Student Union for commission revenue, Foundation's management provided authorization to the University's fiscal office last year, but payment was not processed. Management will work with the University fiscal office to customize Peoplesoft so that a report can be run as needed to monitor the payment of accounts payable items.

Current Year Status

Per our current year audit procedures performed for accounts payable, no exceptions were identified. We noted that management had made efforts to ensure payments of accounts payables on a timely manner.

Finding 3 – Pledges Receivables

Condition

As part of our analysis of pledges receivables we were provided with a detailed listing of all pledges outstanding as of June 30, 2007, from which we selected a sample of pledges for confirmation. All confirmations received with exception were resolved with the assistance of Foundation personnel. For responses not received during performance of our audit, we performed alternative procedures to substantiate the balance included in the general ledger at June 30, 2007. During performance of these alternative procedures, we requested the original pledge form prepared during the pledge drives and found that one of these pledges was received in the form of residential real estate in the amount of $250,000. Upon further review, we noted that the pledge form provided did not specifically detail information required to substantiate the $250,000 value recorded in the general ledger, such as lot size, residence size and area where residence would be built. With the assistance of the University's AVP for Development, we contacted a representative from the pledging organization and obtained the information needed to substantiate the amount recorded in the general ledger.

Recommendation

Foundation staff should revise current pledge forms to include documentation necessary for valuing of non-cash pledges. Additionally, the pledge listing should be categorized by cash and non-cash pledges, to enable staff to better analyze the non-cash pledges prior to the conduct of the year-end audit.

Management Response

Management continues to work with the University Advancement office to track pledges and develop new ways to bridge the gap between the pledge database (Banner) and the general ledger. As well, Foundation management, along with University Advancement, follows protocols established by the CSU in recognizing and recording pledges. The auditor has identified a special case whereby the donor stipulated on his pledge card that he would satisfy his pledge from proceeds generated from the sale of a home. However, the pledge card did not indicate an amount for the proceeds. Management will make an effort to make sure all recorded pledges contain a specific amount and that cash and non-cash pledges are segregated so that they can be identified readily.

Current Year Status

Prior year non-cash pledge was reclassified to conditional pledge and was therefore excluded from pledge receivable balance. Per management, there are no other non-cash pledges receivables. Management is in the process of developing a comprehensive pledge policy and procedures that will address such issues.